

A Brief Introduction to GIC's System of Retiree Health Insurance

OPEB Commission

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Legal Framework

- Public retiree health insurance established in statute
 - State retiree health insurance established in G. L. c. 32A:
 - “The commission shall require that, upon retirement of an employee, the policy or policies of insurance as set forth in section six, except the optional group life insurance referred to therein, shall provide that . . . health insurance . . . as may be applicable, shall be continued.” -- § 10
 - Survivors in § 11
 - Contribution ratios established in line item language in the annual General Appropriations Act (GAA).
 - Municipal retiree health insurance established in G. L. c. 32B:
 - Retirees in § 9; survivors in §§ 9B, 9C.
 - Contribution ratios set by local option. §§ 9A, 9C, 9D, 9D ½, 9 D ¾, 9E, 9F, 9G
 - Options to transfer enrollees and dependents to the GIC. § 19 or §§ 21 & 23.
- Participation in a GIC health plan does not create contractual rights :
 - Pensions rights vest:
 - “[Present and past pension] provisions ... shall be deemed to establish . . . membership in the retirement system as a contractual relationship under which members . . . are entitled to contractual rights and benefits, and no amendments or alterations shall be made that will deprive any such member . . . of their pension rights . . . if such member . . . [has] paid the stipulated contributions.” -G. L. c. 32, § 25(5)
 - No equivalent rights established in Chapter 32A or Chapter 32B

Who

- Retirees
 - “Employees formerly in the service of the Commonwealth or certain of its political subdivisions, whose services ended on or after January 1, 1956 and who are eligible for and are receiving and continue to receive a retirement or pension allowance from a participating retirement system, including from the Board of Higher Education's Optional Retirement Program.” 805 C.M.R. § 1.02
- Survivors – until remarriage or death
- Dependents – of eligible retirees and survivors, generally until age 26

What

- Mix of self-insured and fully insured plans
- Fully-insured:
 - GIC pays premium to health plan
 - Health plan administers benefits and pays claims
 - Cost = state share of premium times enrollment
- Self-insured
 - GIC pays administrative services only (“ASO”) fee to health plan
 - Health plan administers benefits
 - GIC pays claims
 - Cost = ASO fee + claims costs – out-of-pocket expenses (deductibles, copays, any coinsurance, any non-covered expenses)

Retiree Benefits and Medicare

- Medicare plans
 - Retiree / survivor enrolls in Medicare
 - Required by law for those who are Medicare-eligible
 - GIC “Medicare plans” provide supplemental coverage
- Non-Medicare plans
 - Non-Medicare retirees and survivors participate in same pool as active employees
 - Retirees generally benefit from sharing risk across a pool that includes younger enrollees

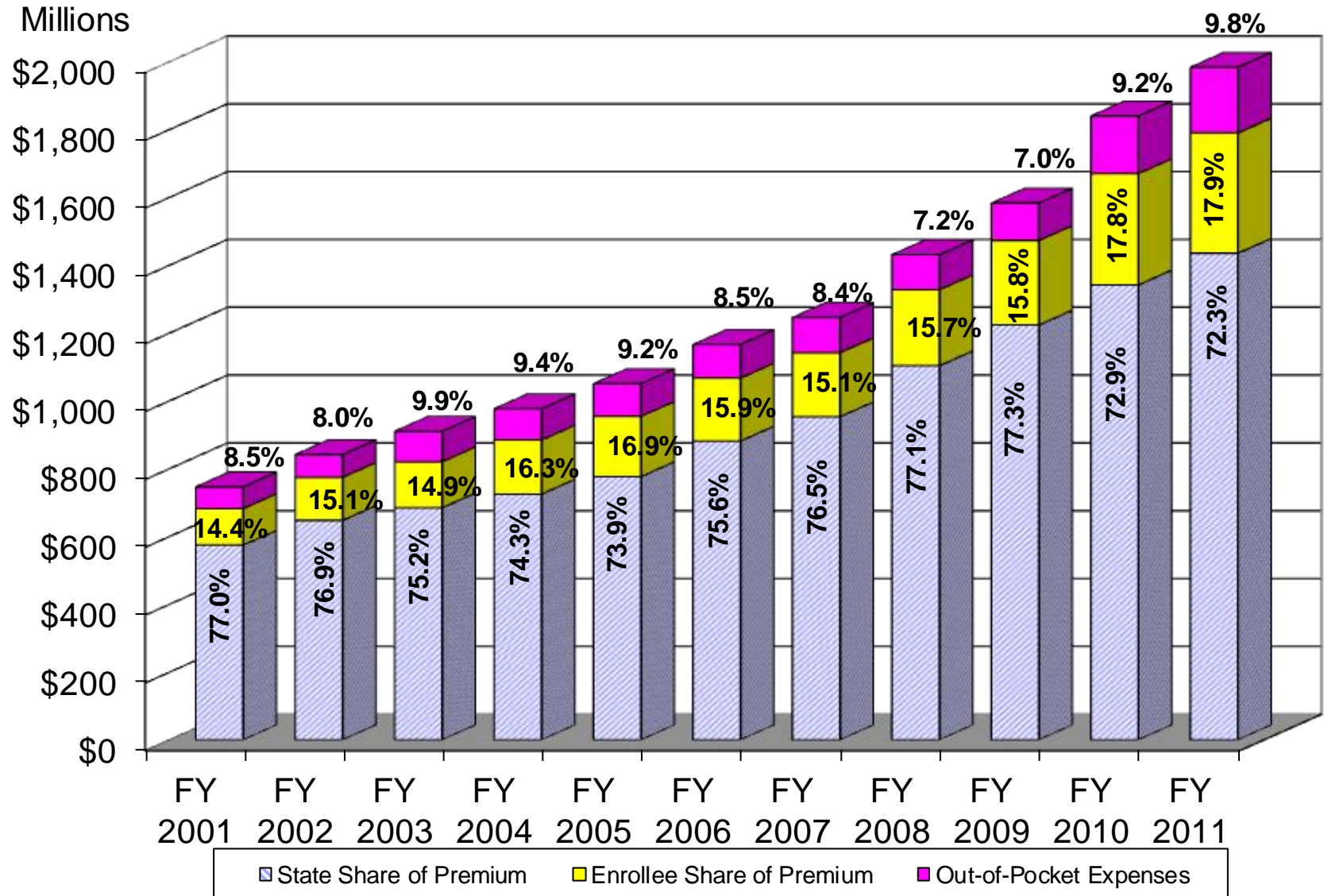
THE GIC'S RETIREE POPULATION

Excerpted from:

Age-Sex Report, Pool I, FY07-FY11

Prepared by Catherine Moore for
the February 10, 2012 GIC
Commission Meeting

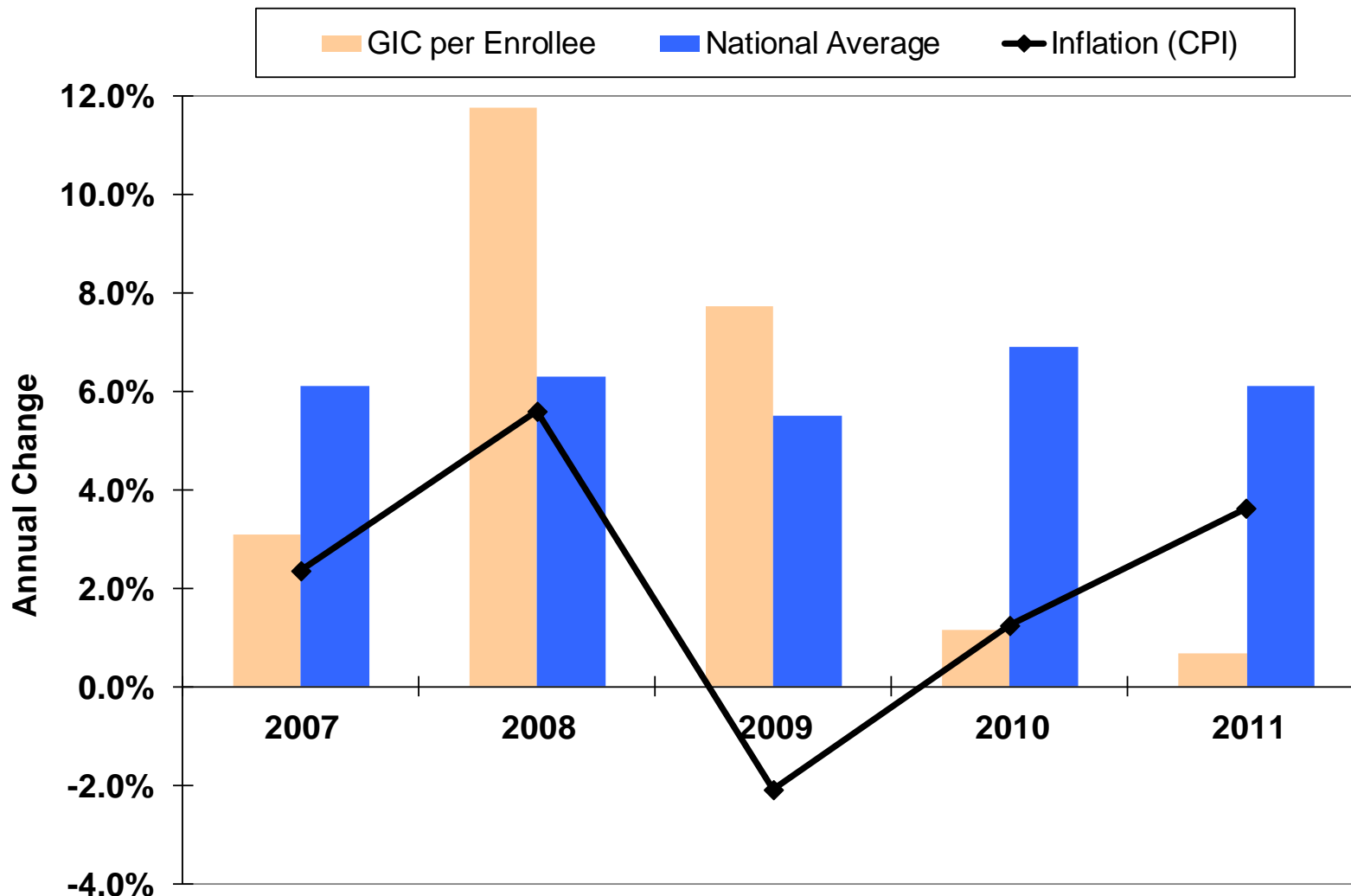
HEALTH EXPENDITURES: GIC AND ENROLLEES FY2001 – FY2011



TOTAL HEALTH EXPENDITURES

- GIC enrollees' *total health expenditures* (the state's and the enrollees' insurance costs and enrollees' out-of-pocket expenses), rose \$734 million, from \$1,246 million in FY2007 to \$1,983 million in FY2011 – an increase of 59.2 percent
- This is slightly higher than the 56.8 percent increase in the *total cost of health insurance*, which rose \$648 million, from \$1,142 million in FY2007 to \$1,790 million in FY2011
- Note that the increases in both the total health expenditures and the total cost of health insurance are partially driven by substantial GIC enrollment growth since FY2007

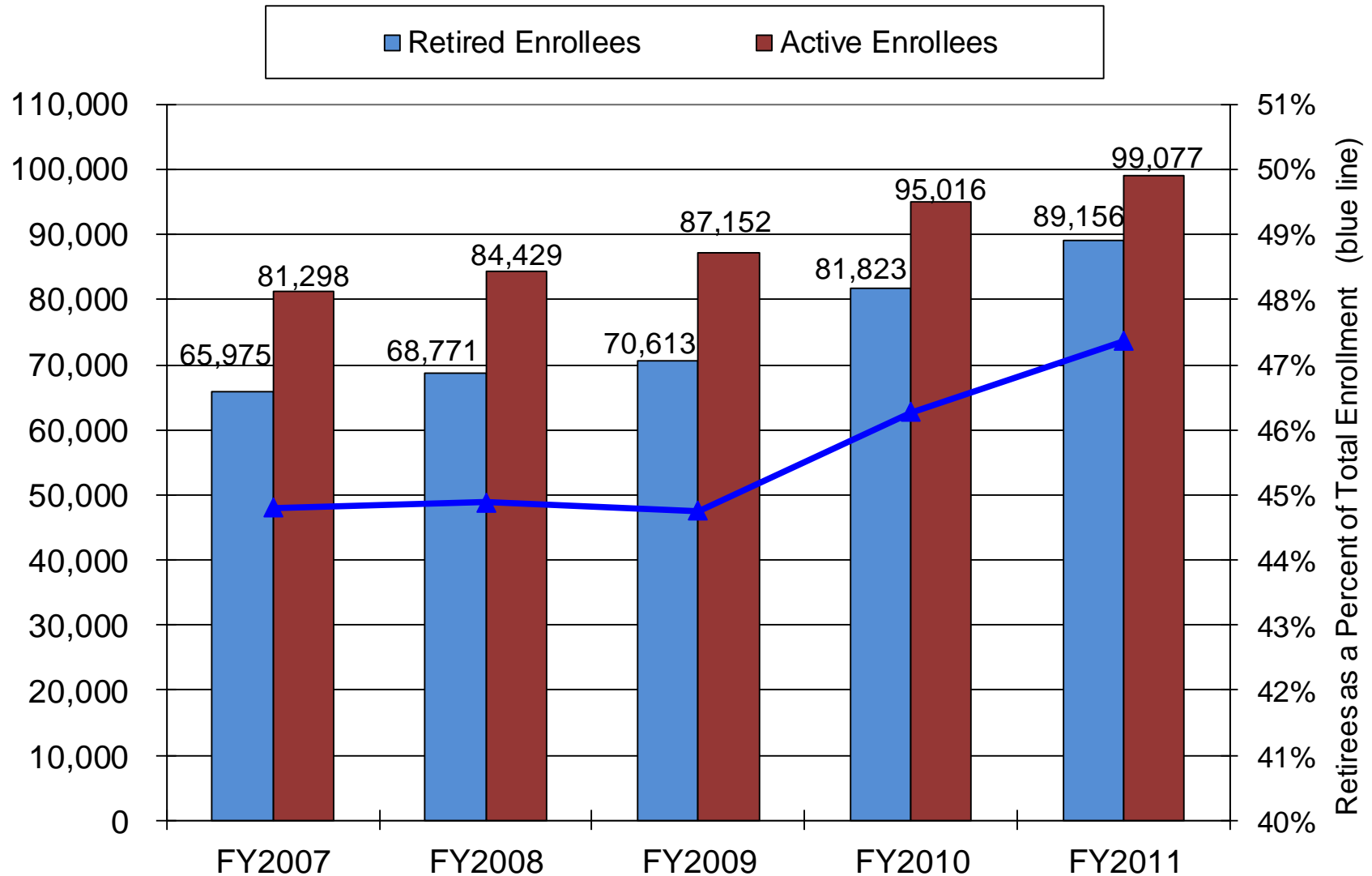
AVERAGE COST OF HEALTH INSURANCE ANNUAL PERCENTAGE CHANGE FY2007 – FY2011



Sources: National Survey of Employer-Sponsored Health Plans, Mercer Human Resource Consulting, 2010 Survey Report and the U.S. Bureau of Labor Statistics <http://data.bls.gov/PDQ/servlet/SurveyOutputServlet>
February 10, 2012

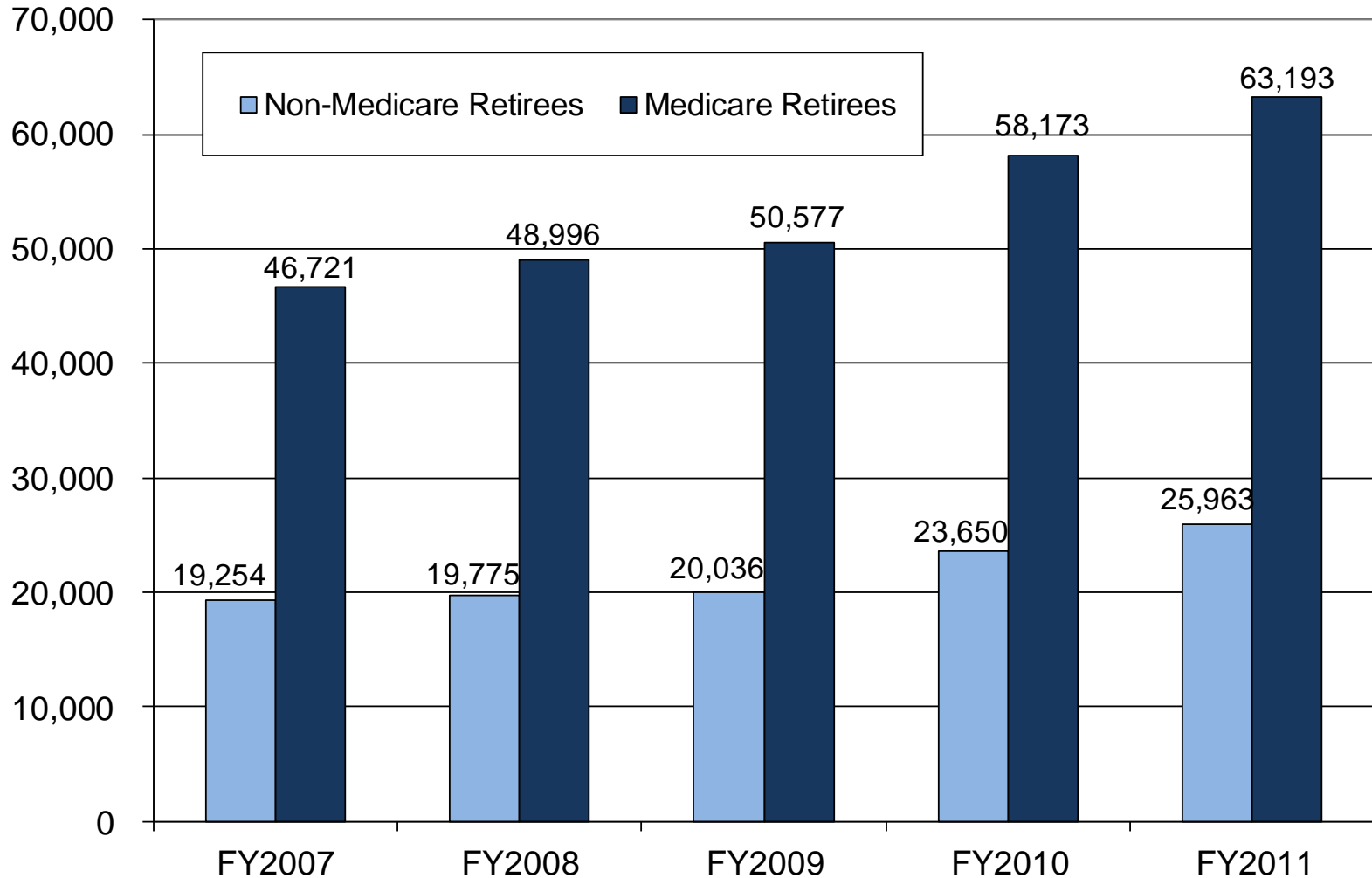
GIC ENROLLMENT FY2007 – FY2011

ACTIVE AND RETIRED ENROLLEES



GIC ENROLLMENT FY2007 – FY2011

MEDICARE AND NON-MEDICARE RETIREES

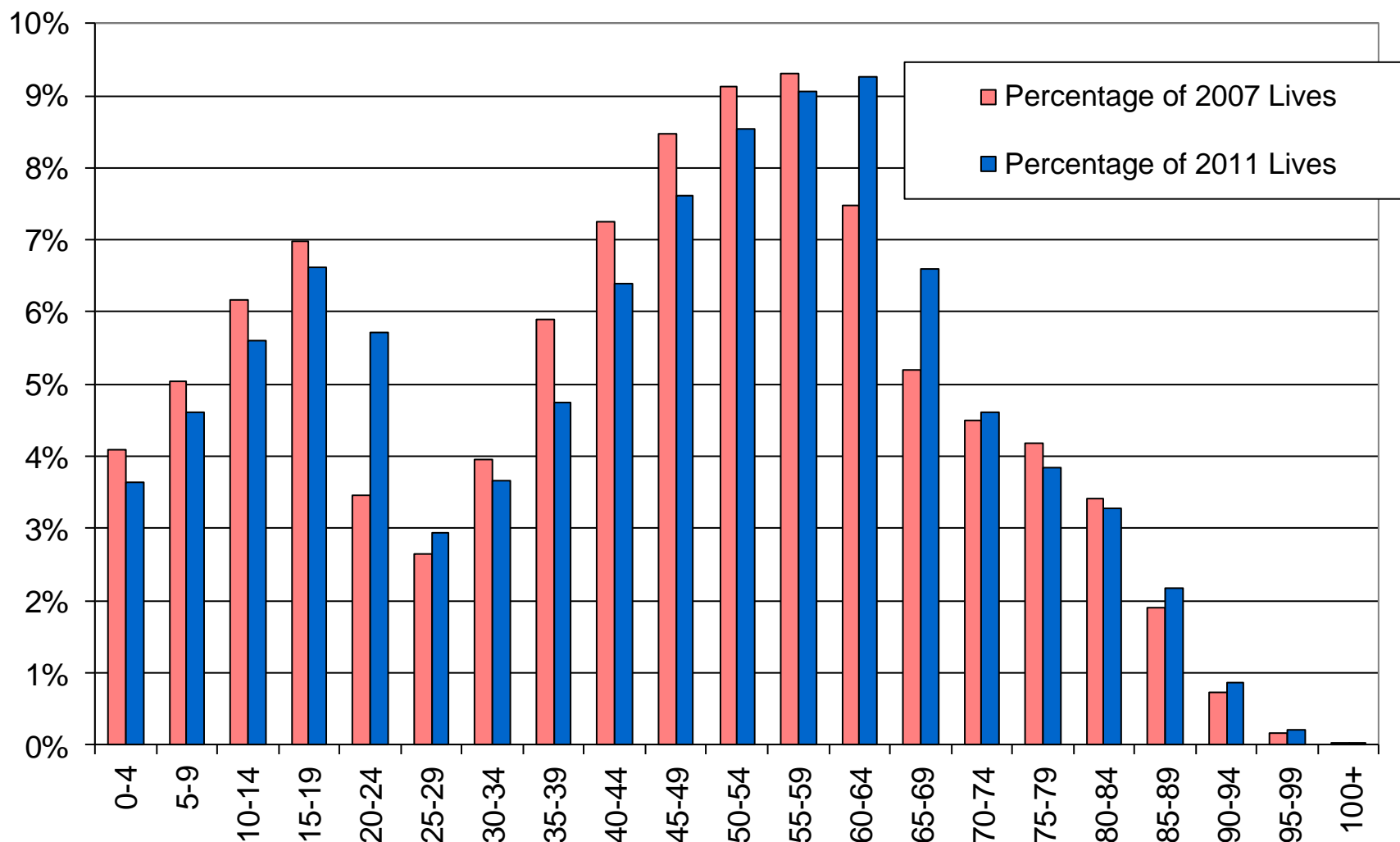


ENROLLMENT FY2007 – FY2011

Actives and Retirees

- Retiree enrollment grew by 23,200 contracts, and outpaced the growth in the number of active employees despite their significant increase (17,800 contracts)
- Seventy percent of the retiree enrollment growth was in Medicare contracts (roughly maintaining the GIC's ratio of Medicare to non-Medicare retirees)
- Most of the GIC's enrollment growth in the past five years (35,700 out of 41,000 new enrollees) occurred as a result of municipalities joining the GIC
- 52 percent of municipal enrollees are retirees; retirees are 46 percent of state enrollees

MEMBER AGE DISTRIBUTION COMPARISON FY2007 AND FY2011



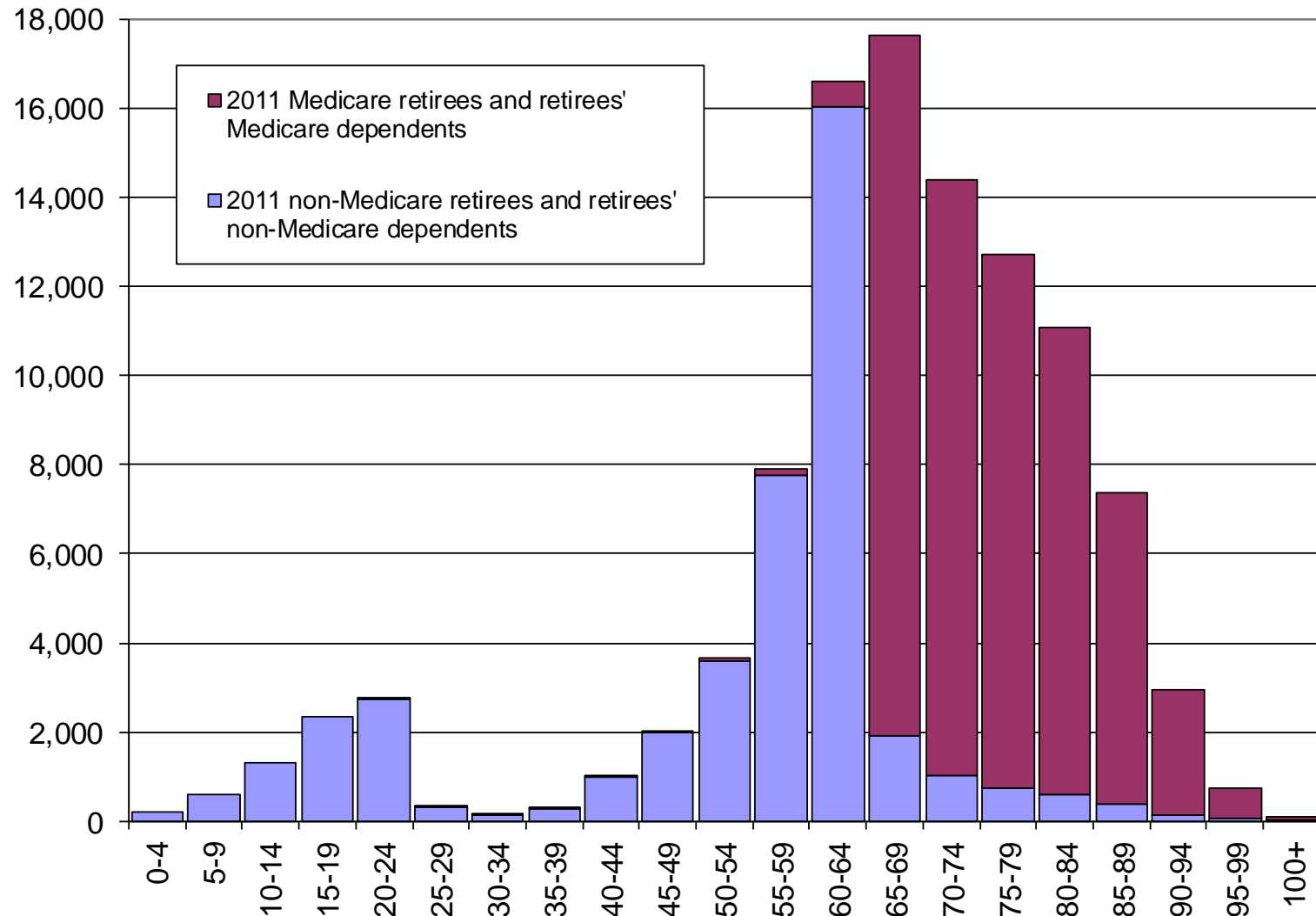
ENROLLMENT FY2007 – FY2011

Demographics - Age

- At 58.6 years old, the average GIC enrollee in FY2011 is slightly more than one year older than the average enrollee was in 2007 (57.3 years old)
- The GIC's aging population is reflected in the decrease in the share of enrollees who are in their 30s, 40s, and 50s (from 49.8 percent of enrollees to 45.4 percent) and in the growing proportion of enrollees in their 60s (from 18.5 percent to 23.1 percent of the GIC population)
- The number of dependents ages 20 to 24 more than doubled, from 9,200 to 19,100; likely attributable to Massachusetts Health Care Reform
- The average covered life was not quite a year older, at 45.1 years in FY2011 (up from 44.2 in FY2007)

RETIREEES' AGES - FY2011

MEDICARE AND NON-MEDICARE RETIREEES

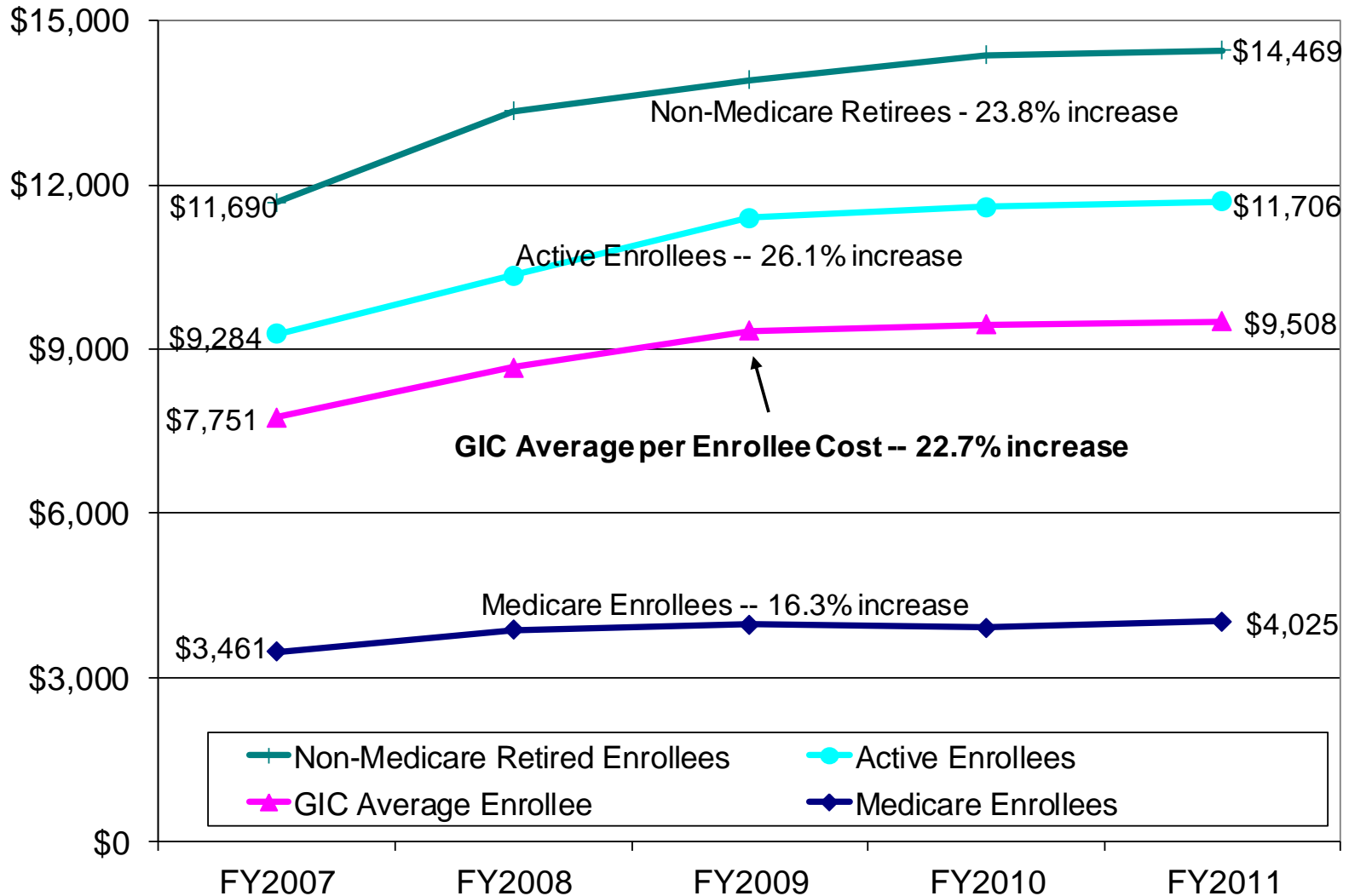


ENROLLMENT FY2007 – FY2011

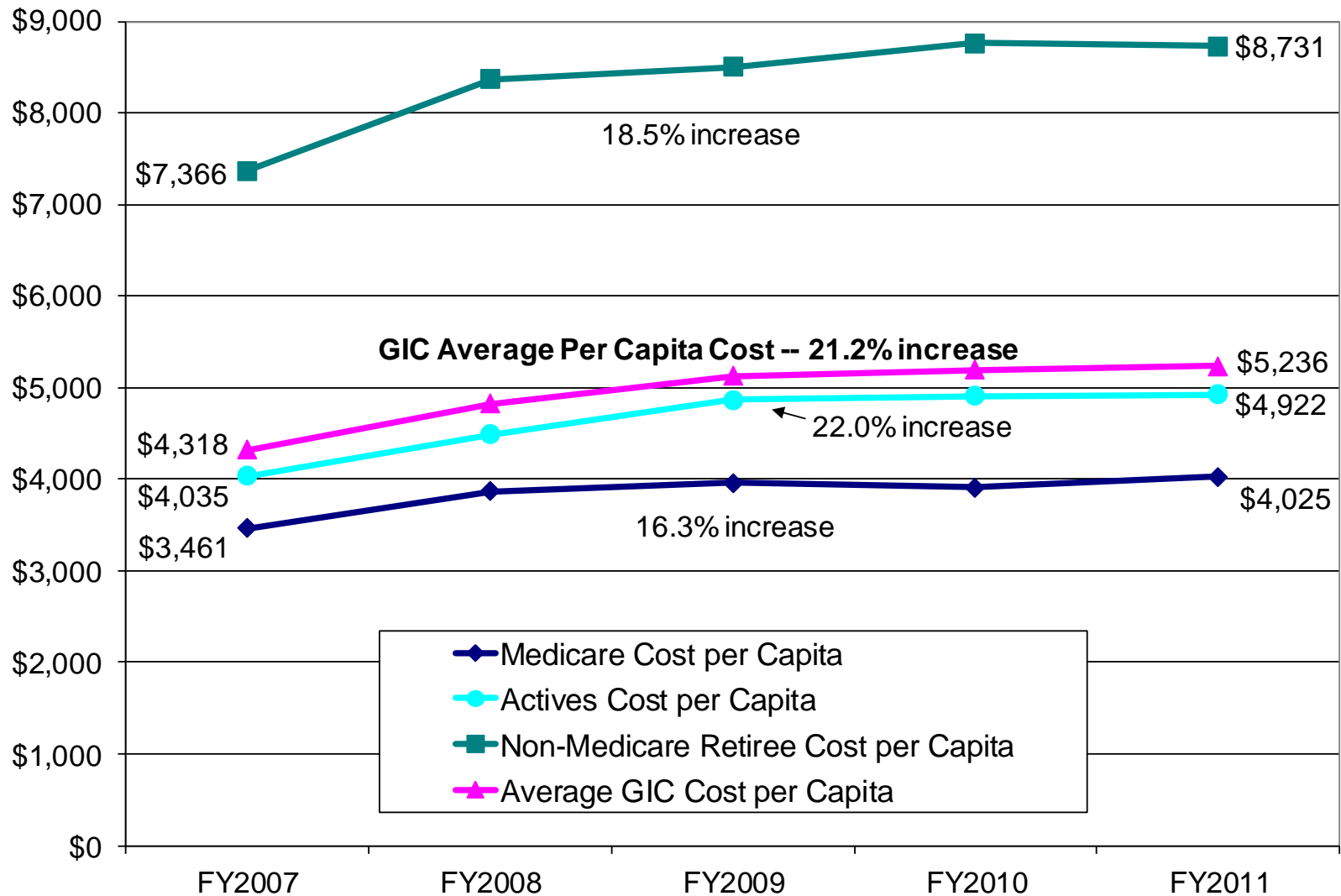
Retirees' Age Structure

- Non-Medicare retirees remain a significant population in terms of GIC costs. Per capita, non-Medicare retirees are close to twice as expensive to insure as the next most costly group (actives).
- A large and growing proportion (41.4 percent in FY2011) of the non-Medicare retiree population are aged 60-64 (includes retirees, survivors and their dependents)
- Almost none of the retirees in the 60-64 age group are on Medicare. However, most of them will become Medicare-eligible and join a Medicare plan in the next five years

AVERAGE COST PER ENROLLEE FY2007 – FY2011



AVERAGE COST PER CAPITA FY2007 – FY2011



COSTS FY2007 – FY2011

By Enrollee Category

- Medicare enrollees cost the GIC the least to insure (\$4,000 in FY2011 -- Medicare is the primary payer), and their average cost per enrollee increased at the slowest rate over the last five years (16.3 percent)
- Per capita, active enrollees cost \$900 more than Medicare enrollees. However, actives' per enrollee costs are much higher than Medicare enrollees' costs because the average contract covers 2.38 lives (each Medicare enrollment covers one life)
- Non-Medicare retirees costs are the highest – roughly double the per capita cost of actives and Medicare retirees. Despite a smaller average family size, their costs per enrollee are also more than \$2,800 higher than actives.

APPENDIX: DEFINITIONS (I)

- **ENROLLEES:** Health insurance contract holders with the GIC. In most cases, enrollees are either employees, retirees, or survivors. However, people covered by a Medicare plan are considered enrollees, even if they never worked for the Commonwealth, a municipality, or another entity (e.g. the Medicare-enrolled spouse of a retiree is considered an “enrollee”).
- **LIVES:** Each person whose health insurance is provided by the GIC.
- **SELF-INSURED:** The employer (the Commonwealth in the case of the GIC) bears the financial risk that health insurance costs could exceed premiums. In an insured arrangement, the health plan bears that risk.

APPENDIX: DEFINITIONS (II)

- **TOTAL COST OF HEALTH INSURANCE:** Premium cost for insured plans, and actual expenditures (claims and administrative costs) for the self-insured plans (the UniCare Indemnity, PPO, Primary Choice and Spirit plans). It includes both appropriated funds and employees' and retirees' premium contributions.
- **TOTAL HEALTH EXPENDITURES =**
Total Cost of Health Insurance + Copayments + Deductibles
- **RUN-IN:** When a person joins a self-insured health plan for the first time, at the beginning of the first plan year, the plan sponsor (GIC) incurs liabilities, but has not yet received provider bills to pay. This is called run-in; its result is to understate enrollees' first-year cost.